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COOPERATIVE BUSINESS

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IDENTIFYING THE COOPERATIVE NATURE OF YOUR BUSINESS

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IDENTIFYING THE COOPERATIVE NATURE OF YOUR BUSINESS

1. INTRODUCTION

Is the time we give to our cooperative enterprise being used to its best advantage?

As directors do we truly consider ourselves and always act as representatives of our members?

Do the records show that we do, in fact, spend enough time actually developing policies?

Do we direct?

Is our cooperative a successful and sound business with plans for the next five years?

Does the community and government want cooperatives?

To, perhaps, assist in developing affirmative answers to some of these questions and to provide a better understanding of where cooperatives came from, where the cooperative sector is now and signs for the future which will help you function as more informed cooperative directors let us take a general look at what we call

2. THE COOPERATIVE SECTOR

Cooperation, as we know it, has developed from exercises by groups of people combining their efforts to achieve a common objective. Trial and error of various types of systems eventually produced the right principles and methods for making the cooperative structure an enduring success.

Consumer Trading

The Rochdale Pioneers effected the synthesis which set the pattern in 1844. Whilst this was primarily concerned with the consumer section of the community the principles they established to guide and control their operations are today applicable to all sections of the movement.

Consumer Credit

Cooperative credit for workers developed from experimentation in Germany. Schultz Delitzsch's original plans were not based on pure self-help by those who needed credit but included a philanthropic element which later had to be discarded. Raiffeisen's experiment with services for rural tenant farmers had to be similarly modified. He began with efforts to organise the well-to-do for the assistance of the poor but after about thirteen years he understood that Cooperation really begins when the poor - and any

other group - are resolved to help one another. This was the foundation of the credit union movement we know today.

The ends of social welfare and progress have best been achieved through true cooperative effort without incurring the huge debit of misery, insecurity and conflict which often accompanied industrial change under purely profit seeking leadership.

Agriculture

This is notably true of agriculture. Cooperation has enabled multitudes of small farmers to transfer many operations formerly carried out on the farm e.g. butter and cheese making, processing, distribution of liquid milk, developing market conditions, besides giving them the motives and means to readjust their farming to suit the needs and tastes of the consumer.

The significance of the power of the farmers in the export income earning economy of this country, in which cooperative processing, distribution, marketing played a major part, produced changes in attitudes of government promoted by our then cooperative leaders. It also produced changes in the attitude of cooperators to government.

The outstanding effect of this situation is Division 9 of the Taxation Act, first introduced in the mid 1930's.

Cooperative Commonwealth

One of the original concepts of Cooperation was the ultimate achievement of the total economy organised cooperatively in a Cooperative Commonwealth. This concept was not restricted to the European early developers of Cooperative practice. The large group of Australians dissatisfied with the then current lifestyle who took ship to Patagonia in 1893 including William Lane and Dame Mary Gilmour had as their objective a total cooperative system of living.

But the notion of the Cooperative movement absorbing the whole or most of the economic system was seen to be too Utopian. The Patagonian experiment ended after six years. Here again ideas and idealism were forced to come to terms with facts.

Development of the Public Sector

The capitalist economy continued to evolve and in addition a third element, the public sector, had grown up in the economy occupying fields in which enterprises promoted and managed by local, state and national governments possessed advantages over private or Cooperative enterprise. The idea of a mixed economy gained ground irrespective of political doctrine or policies.

Role of Cooperatives

The role of the Cooperative movement was henceforward conceived much more as counterbalancing and correcting the undesirable features of private profit-seeking enterprise than as superseding it. Whilst there are changes in attitudes towards private profit-seeking enterprise, the situation today, in market oriented systems such as ours, is for Cooperatives to act as the balancing wheel between the public and private profit motivated business sector.

Cooperative Sector in Australia

This should indicate that the Cooperative sector has an identifiable, quantifiable share of the economy whose growth or reduction would concern all. In Australia this is not yet the case.

Individual Cooperatives are usually concerned with the development of their own business but appear to show little interest in the overall Cooperative sector of which they are part.

And Australia-wide, composition of the Cooperative sector is changing. The beneficial or damaging effect of these changes has been and will continue to be in direct proportion to the action of cooperators today.

Changes in the Cooperative Sector

Some examples of change.

In New South Wales we have seen the demise of the major consumer retail store group - The Newcastle and District Cooperative. We have seen the dairy marketing cooperative, PDS, taken over. We have seen GrazCos merged with non-cooperative business. In South Australia we have seen Southern Farmers, South Australian Fishermen sell their cooperative structure to private, profit-oriented business. Barossa Cooperative Winery - Kaiser Stuhl - sold out to non-cooperative enterprise. These are just a few examples-and there are undoubtedly good reasons for these changes-but nevertheless

they represent a diminution in the Cooperative sector in that state.

In Victoria the major disaster affecting the Cooperative sector in recent times was the collapse of Cooperative Farmers and Graziers Direct Meat Supply. As in all cases the question had to be asked - why?

In this particular case did the situation arise simply because of the cooperative nature of Direct Meat Supply or because of outside interference in the Cooperative's operations. Facts support the latter appraisal.

In Victoria, Credit Cooperatives maintain a Guarantee Fund - a statutory control requested by and controlled by credit unions as a protection for members and the credit union image. Credit unions operate a central banking scheme to provide cooperative benefits for participants which would otherwise flow to shareholders of the banking companies. Other Cooperatives appear content to continue to provide income to their bankers which could otherwise be diverted to their members.

Community Cooperatives are encouraged by government with the provision of government guarantees for funding, yet the funds provided are without exception drawn from the commercial banking companies.

Dairy Cooperatives continue to compete strongly against each other despite a positive cooperative move to acquire the major dairy marketing Cooperative when under threat from outside takeover.

Retail trading Cooperatives have no common activity in purchasing or funding.

Herd improvement Cooperatives are developing a healthy inter-Cooperative activity.

Development of staff participation in investment funding of and decision making in industry is a further move towards increasing cooperative development. Larger Cooperatives should also be looking at this sort of programme for their employees.

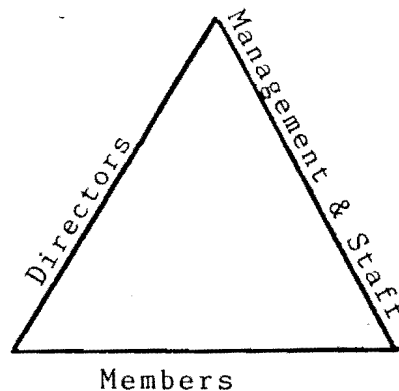
Government is taking a great interest in developing a social welfare type of cooperation, developing new types of housing Cooperatives, looking at all aspects of the present day Cooperative sector.

3. UNIQUE CHARACTERISTICS OF COOPERATIVES

To enable us to deduce the meaning of and future action arising from these experiences of the Cooperative sector we should look at some of the unique characteristics of Cooperatives and assess their worth and whether modification or simply more activation is required. Cooperative enterprise is teamwork - democratic, equitable and mutual.

Structure

The team comprises



All are important.

Without members there will be no Cooperative,
no business.

The directors are the elected legally responsible committee to direct the affairs of the Cooperative.

Cooperative business structure requires responsibility for executing directions of the board in the operations of the business. This is the function of management which is usually professionally engaged but could be a specific contribution of one or more members.

Members

An essential difference between the Cooperative structure and other business structures is that shareholders are :

- . the members
- . the owners
- . the users of the services for which the Cooperative is established
- . the controllers
- . the beneficiaries.

It follows therefore that such commitment must at all times be recognised. Laidlaw in his study entitled "Cooperatives in the Year 2000" says

"Commitment is the lifeblood of the Cooperative and where it is lacking or weak the organisation declines."

There is evidence, not only in Australia, that many members of Cooperatives believe they are powerless to influence decisions and they perceive little difference between the so-called Cooperative and its private profit-motivated competitors.

They observe that the social function of their Cooperative is lost sight of and its economic function is less efficiently performed than by its non-cooperative competitors. Often this perception is due to ignorance as well as apathy on the part of the member and also as well as poor Cooperative practice by the business and the board.

Situation in Your Cooperative

What is the situation in this regard in your Cooperative?

What programmes do you have in place to research the whole range of member relations?

How does your board communicate with members

- through regional meetings?
- by representative regional directors?
- by regular news sheets?
- through outside marketing staff or office staff in contact with the public?

Where the Cooperative is widespread do you rotate your board meetings in different areas?

Do you allow or encourage observers at selected board meetings?

Membership and Voting

As owners of the Cooperative, the members usually have full voting rights which in poorly directed or managed business could be used to jeopardise the security of the Cooperative.

There are always people ready to acquire the assets of well-developed organisation, particularly a cooperative business with undervalued and underpriced shares. True Cooperatives with a good member understanding and support whose shares are not available for public purchase or sale, whose issue and transfer are under the control of the directors, should have no fears. However, where

- member relations are poor
- where share registers are overburdened with non-active members
- where Cooperative business performance is less than 100% efficient
- where a Cooperative is non-competitive

then it is not unreasonable to expect that the members' loyalty to their own business will be sorely tested.

It is timely for all Cooperatives, particularly those with a nominal capital structure incorporated under the Companies Code to look carefully at their share capital structure, Articles of Association, rules and matters related to voting rights, to the relevant privileges of active and non-active members, to the possibility of developing preferred non-voting shares.

Management and Staff

Management roles and functions are similar in Cooperatives and other private profit-motivated businesses. However the manner in which they are carried out varies considerably. Cooperative management must not only be concerned with the economic organisation but also with the social association. Although Cooperative Principles may not affect daily operations, the values underlying these Principles - equity, equality, mutuality - should be reflected in management practices.

Experience has shown that where Cooperative management becomes separated from these values

the organisation fails to satisfy the expectations of members - even to the point where its survival is threatened.

It's a mistake to assume that management theory developed in private enterprise and/or government is fully applicable and appropriate to Cooperative enterprise. Cooperatives are associations of people as well as business enterprises. Therefore successful Cooperative management must involve both aspects. The challenge is to take into account both the similarities and differences between Cooperatives and other organisations. An understanding of Cooperative management needs is in fact essential to the survival of our Cooperatives.

Some Managerial Skills Required of Cooperative
Management Additional to or Varied from Private
Profit-Motivated Structured Business Skills

Decision-making processes

Disclosure - accountability

Management of assets

Cooperation between Cooperatives

Management of Planning

Decision-making Process

Any organisation must develop a power base that will enable it to achieve goals. In Cooperatives the power base is used to deliver goods and services to its members.

Members delegate decision-making power to the board of directors which in turn delegates day to day executive power to an appointed manager. How that manager executes the policy decisions of the board is the test of good Cooperative management but it does not vary the fact that the manager of a Cooperative has a large base of potential power. Members who disapprove of the way this power is used may decrease their dependance by not using the Cooperative, employees and specialists may leave or sabotage the operation and directors may withdraw support from the manager.

More interest groups should be involved in the decision-making process in Cooperatives than in other types of business. It is

a proven fact that a manager who shares power and integrates the various units of the organisation well will, in the long-term, greatly increase the organisation's ability to reach its goals.

Accountability - Disclosure of Information

Information flows are vital to maintaining a sense of involvement amongst the Cooperative membership and permitting employee participation in decision-making. In Cooperatives open access to information should be provided to all employees, directors and delegates.

When management speaks openly employees and elected representatives of the members develop a feeling of involvement with one another. The disclosure process offers opportunities for working through problems or dealing with them before they become critical.

Directors, delegates, members and employees will be encouraged to provide inputs for problems before management and the board make final decisions.

Of course, despite this desirability of openness, there is a need for selective screening of the information to be shared in any given situation. At present the definition of confidential information differs considerably between Cooperatives. However observation of most Cooperatives in Victoria indicate management of membership information systems is handled poorly with the consequential result that apathy and even sometimes hostility are common amongst members and employees.

Management of Assets

Assets include physical assets - transport, machinery, land and buildings - as well as financial resources. In a Cooperative, financial resources consist of shares or equity subscribed, money derived from transactions and surplus generated from daily operations.

Shares may come from several sources. They may be subscribed by members, by cash or they may be accumulated over a period of time from dividends or bonuses paid from annual surplus which in turn is derived from transactions.

Because the same people who contribute shares also carry out transactions, Cooperative finance differs from finance in other types of organisations.

Interest paid on shares is limited or, in some instances, it is nil. Distribution of surplus is proportioned not to the capital invested but to the value of transactions undertaken by each member in the course of the financial year.

Surplus earnings present unique problems for Cooperative management and boards. Should these be paid to individual members?

Should they be used to develop further community services? Should they be retained to build up the strength of the Cooperative?

The source and utilisation of funds are crucial aspects of management, for large capital accumulation is necessary to finance the development of services for members. However, wealthy Cooperatives owned by poor members who may wish to withdraw their equity, present problems of financial and social management.

Financial management must be guided by the economic realities of the Cooperative. Such management has a major social effect which can help to achieve the aspirations of its members or it can become a major source of frustration and alienation.

Cooperation amongst Cooperatives

The logical development of Cooperative activity for Cooperatives to cooperate with other Cooperatives has been recognised for a long time and was formally written in as a guiding Principle of Cooperation in the mid 1960's.

Comprehensive planning within Cooperative sections is not common. Most senior managers spend very little time or energy in developing this potential at state, national and international levels.

Professor John Craig of Canada has listed some of the problems which he sees as handicapping comprehensive planning within the Cooperative sector and I reproduce these.

1. Competition between some Cooperatives serving a common market.
2. Lack of managerial techniques to coordinate plans in autonomous units.
3. Lack of expertise in collecting and processing information needed for analysis.
4. Varying levels of competence between different organisations which results a fear of appearing incompetent by those less skilled.
5. Geographic distances.
6. Vastly different problems between various organisations.
7. Overlapping memberships and competitions for equity investment.
8. Lack of development of Cooperative super structures which could facilitate sharing of information and trust.

9. Lack of a vision to guide development of the Cooperative sector.
10. Fear by directors that comprehensive planning will increase managerial control.

Managers could provide significant benefits to their members if they spent more time developing cooperative business relations.

In this state

Marketing of primary produce

Banking

Insurance

Group purchasing

are but some areas open.

A major part of the lack of cooperation between Cooperatives relate to senior management training.

Capitalism is based on a competitive logic and it is assumed that competitive relations are essential. But Cooperative management

should be different in this respect. The logic of cooperation assumes that cooperation between Cooperatives will benefit members. They are often frustrated by the lack of initiative by leaders to work together.

Management of Planning

Planning is a systematic process that involves collecting information and making choices about which activities should be assumed.

When an organisation is created democratic participation is forward looking and involved in planning. Once an organisation becomes established and institutionalised, participation often shifts from shaping the future to reviewing the past, i.e. backward looking. The shift from democratic involvement in decisions that shape the future to democratic consent is an important element in member apathy.

Some organisations do not try to anticipate events but are content to respond when they occur. Decisions are then required to be made quickly and participation by all interested parties is not possible. The exclusion of

people from the planning process reduces commitment, increases apathy and alienation.

An organisation must relate to its environment in order to survive. It needs to collect information, set goals and choose a pattern of action to achieve these goals. That is, the Cooperative must determine where its various groups want to be in the future and then must plan the best way of reaching this goal.

Summary

The major difference between Cooperative management and management in other organisations is the greater need for Cooperatives to involve members and staff in key decision making. Many managers faced with a difficult situation feel they must think it through for themselves and produce a solution. This is what they have learnt in management courses. Cooperative theory requires a different response. Cooperative managers are expected to discuss their problems first with other parts of the management team, the board of directors and staff and from then to the membership and involve interest groups in the development of the solutions.

Directors

The success of the Cooperative leadership team depends on certain factors - the prime one being mutual confidence between directors and management - neither one trying to overstep the authority of the other. Management should recognise the board of directors as representatives and spokesmen for the members, as the legal nominees of the members with responsibility for the sound conduct of their business operations. For their part, directors must respect management in day-to-day control of the business. In the ideal situation, directors do not try to manage and managers do not dictate general policy although of course they should advise the board. This is the balance and division of responsibilities.

Sir Robert Crichton-Brown, President of the Institute of Directors, sets out his view of the general functions of the directors of any business organisation as :

"Responsible for laying down matters of principle, and of accounting, statistical and management procedures.

for decision of what products to make, what markets to go into, what manufacturing capacity is needed, use of spare capacity.

for investment decisions, development
of property, purchase of capital assets,
return on funds, cash flow and liquidity.

Concerned with approval of budget, proposals and
performance within the agreed programme.
If performance is above or below budget he
needs to know why.

with performance of various sections
or departments of the business.

with turnover.

with financial commitments short and/or
long term.

with contracts and obligations of the
business.

In brief

Concerned to see that management effectively
does its job, that proper reports are made
and relevant information supplied regularly. "

These functions apply to directors of cooperatives
large and small but such directors must ensure
management practices adhere to the social

responsibilities of Cooperatives as well as to the economic.

The great weakness in too many Cooperatives, perhaps especially so within large scale organisations, today is the encroachment of management into the policy-making role and other board functions with directors becoming mere "rubber stamps" for decisions already made by the other half of the team.

The open question pertaining to this situation is the ability of directors to play their part in a meaningful instead of merely ritualistic and perfunctory way alongside technocrats and specialists in modern complex businesses.

Adequate funding of Cooperatives is a chronic Cooperative problem. The amount of equity capital in a Cooperative bears directly on the financial stability, growth potential and effectiveness of that organisation. Clear objectives should be set and achieved by boards of directors relating to

adequacy of surpluses to be achieved

equity to assets ratio

surplus distribution policy

treatment of active and non-active
members.

4. COOPERATIVES AND GOVERNMENT

The role of government is all important when considering the Cooperative sector of the economy. The restrictions which Cooperatives accept to carry on our unique form of structured business in the interests of our members and communities entitle the sector to expect support but not control in terms of corporate and taxation legislation. This applies to traditional long-established Cooperatives as well as to the new look contemporary Cooperative. Our predecessors were able to obtain this recognition and to date we in Australia have continued to receive this support from governments, state and federal, of all political persuasions. The ongoing continuation of this support depends largely on us here and now, the present generation of practising Cooperators, to amply indicate our application of essential Cooperative theory to our business structures and operations.

At the federal level yet another close look is being taken at all aspects of taxation. This means that the present Division 9 of the Taxation Act will again be under scrutiny by the anti-Cooperative lobby and by government. The

Cooperative Federation of Australia and the Cooperative Federation of Victoria have developed a strategy for preparation of input into the Prime Minister's Taxation Consultation on behalf of Cooperatives. Your input into this submission would be welcomed. At the state level in Victoria the Government has appointed a special Ministerial Advisory Committee to look at all aspects of the Cooperative sector, Cooperative Companies, Cooperative Societies, producer, trading, credit, community and housing Cooperatives. The fullest opportunity for consultation is being provided for any representative of Cooperatives to have their views heard. The outcome of the deliberations of this Committee will affect all Cooperative Companies and Societies and it is vital that all take advantage of the consultative process provided by the Government. Some matters of concern are

Revised legislation for Cooperative Societies

"Cooperative" to be defined in both Company and Society legislation

Equity capital and voting rights

Surplus distribution

Distribution residual assets

Cooperatives investing in other Cooperatives

Composition of Boards of Cooperative Directors

Cooperative Administration

- function of Registry
- Government and non Government supervision
- the future of the Cooperative Federation
of Victoria

Cooperative Education

What is being done in your community to involve
youth in your Cooperative.

To liaise with local high schools' headmaster, to
have a subject of cooperation introduced in the school
curriculum and for the teachers to learn of
cooperatives to be able to demonstrate the implications
of the Cooperative alternative is an all important
project for all Cooperatives today.

5. CONCLUSION

Resentment against corporate power is growing.

Many people are looking for alternatives and the Cooperative System is becoming increasingly attractive. Government programmes to reduce expenditure are another factor compelling people to organise themselves Cooperatively to achieve some of the discontinued previous services of the public sector. Education in the real meaning and implication of Cooperation is an all important need. Adequate capital, good communication with members and full involvement by informed Directors are all essential to ensure Cooperatives succeed today and in the future.

The International Cooperative Alliance - the World Body of Cooperatives - commissioned Dr. Alex Laidlaw, a world leader in Cooperative thinking and a Canadian Cooperator by experience, to prepare a paper on "Cooperatives in the year 2000" for discussion at the 1980 World Cooperative Congress held in Moscow.

I reproduce and commend for your study his summing up of some of the major issues and crucial questions affecting Cooperatives in the last two decades of the century.

1. Where are the Leaders for Future Development?

It is not too much to say that the quality of Cooperatives will depend on whether first class leaders are leading them, not necessarily supermen but democratic leaders who share responsibility with others in groups and

teams. It is said that first class leaders attract first class people to work with them, but second class leaders attract third class people to work under them.

For the training and preparation of such lay leaders, Cooperative Systems that are affiliated to Education Institutions and programmes of continuing education will have an advantage over those who do not.

The urgent contemporary problems of Cooperatives must cease to be the exclusive preserve of experts and technicians and become the concern of rank and file people as well.

2. Will Cooperatives Be Able To Communicate Their Message?

It is hard to find anyone who thinks that Cooperatives are communicating as well now as they did forty years ago. Cooperators were quite effective communicators in the age of the Mimeograph machine but the age of electronic communication seems to have passed many of them by.

It is said that every Institution depends on its ABC's :

- A for Administrators
- B for Businessmen, and
- C for Communicators.

The printed word as a means of communication seems to be most effective when it is either a rather small, intimate newsletter at a community level or a serious journal for the leadership group.

In the coming years National movements and the larger Business Systems will need to publish journals of research and futurist studies.

3. Can Education be Stimulated and Enlivened?

A Cooperative that is not an Educational Institution as well as a business is missing a great part of its potential role in society.

If the Board of Directors does not take a deep interest in education and accept responsibility for it, it is in great danger of being neglected altogether.

4. What is the Proper Role of Government?

To encourage, befriend and sometimes assist with financial support, but never dominate, direct or try to manage.

If Cooperatives are to be used as strong instruments in economic development experienced Cooperators must be involved in National planning.

All too often the strong embrace of Government ends with the kiss of death for Cooperatives.

5. Where will the Necessary Capital Come From?

In the long run, from the members themselves.

People who use the services of a Cooperative without helping to finance it are only a burden to the Association. Every system of Cooperatives should be structurally affiliated to a system of Cooperative Credit and Banking.

Cooperatives that have an automatic method of capital formation built into their Operation in preference to accumulating capital from profits would have a great advantage in the future.

Cooperatives of the future will require a well developed system of International Banking.

6. Will A Special Kind of Management Be Needed?

Yes, if Cooperatives are going to be essentially different from other kinds of enterprise. Managers and business leaders in the Movement will need the competence and technical skills expected in other business plus a good understanding of Cooperatives in their unique place in the business world.

In large Cooperatives of the future Senior Management

will be guided by teams and the central task will be the responsibility of men who are especially skilful in coordinating decisions of great complexity.

Management in the future will have to give special attention to the strengthening of democracy in the world.

6. What is the Relevance of Cooperatives in the Future?

One of the strongest tendencies in modern economies is towards the conversion of the two most powerful Institutions: big business, and big Government. The only alternative left to citizens is to form groups of their own - especially Cooperatives.

Many present day trends lead us to endorse, with considerable confidence, the view of the British Economist, Alfred Marshall (1842-1924) "The world is just beginning to be ready for the higher work of the Cooperative movement."

Part IV

Resolution of the 23rd Congress of the I.C.A. held at Vienna from 5th to 8th September, 1966

I.C.A. COMMISSION ON PRINCIPLES

The 23rd Congress of the I.C.A. welcomes the report of the Commission on Co-operative Principles as meeting the specification required by resolution at the 22nd Congress.

Congress accepts that, while there can be differences of opinion as to emphasis or degree, the report is a significant statement of co-operative principles in a modern setting.

Congress approves the Recommendations and Conclusions made by the Principles Commission as follows:-

1. Membership of a co-operative society should be voluntary and available without artificial restriction or any social, political, racial or religious discrimination, to all persons who can make use of its services and are willing to accept the responsibilities of membership.
2. Co-operative societies are democratic organisations. Their affairs should be administered by persons elected or appointed in a manner agreed by the members and accountable to them. Members of primary societies should enjoy equal rights of voting (one member, one vote) and participation in decisions affecting their societies. In other than primary societies the administration should be conducted on a democratic basis in a suitable form.
3. Share capital should only receive a strictly limited rate of interest, if any.
4. Surplus or savings, if any, arising out of the operations of a society belong to the members of that society and should be distributed in such manner as would avoid one member gaining at the expense of others.

This may be done by decision of the members as follows:-

- (a) By provision for development of the business of the Co-operative;
 - (b) By provision of common services; or,
 - (c) By distribution among the members in proportion to their transactions with the Society.
5. All co-operative societies should make provision for the education of their members, officers, and employees and of the general public, in the principles and techniques of Co-operation, both economic and democratic.
 6. All co-operative organisations, in order to best serve the interests of their members and their communities should actively co-operate in every practical way with other co-operatives at local, national and international levels.

Congress authorises the Central Committee and its Executive to take note of the decisions of the Congress on the report of the I.C.A. Commission on Co-operative Principles at the 23rd Congress in Vienna and arising therefrom to make such recommendations for changes in the rules of the I.C.A. as may be considered necessary for the next Congress.

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- | | |
|---|---|
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